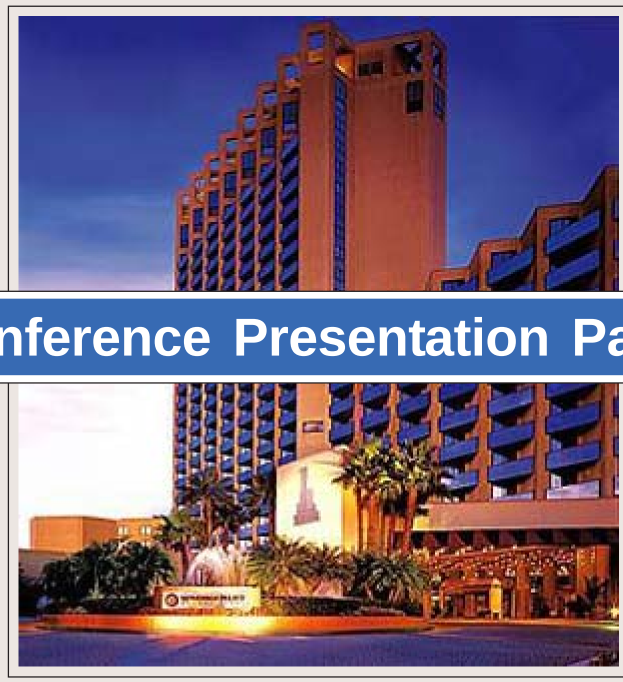
National Conference on Philanthropic Planning

October 13-15, 2010 • Orlando, Florida



Conference Presentation Paper

An Insider's Guide to an Effective Charitable Gift Annuity Program

William D. Samers and Julie Lazarus

Aside from bequests, charitable gift annuities (CGAs) are one of the most popular types of planned gifts. The good rates of return, favorable tax benefits and relatively simple manner in which they can be created make them attractive to donors. While the creation of a CGA can appear somewhat easy from a donor's perspective, there are various factors "behind the scenes" that can make running a charitable gift annuity program rather complicated. If one or more of those components are not handled properly problems may arise with donor relationships, overall department efficiency, compliance, and/or an organization's reputation. This session will provide step by step guidelines on how to effectively run a CGA program. This paper addresses each component in detail and explains how it can be handled by an organization to increase efficiency and effectiveness. For an organization with a seasoned CGA program, these guidelines can provide you with a checklist to ensure that the way you are running your program is as efficient as possible. For those organizations that are planning to start a CGA program, the steps can provide you with a map of how to begin the process and issues to be aware of in the future as your program grows.

A. GETTING BOARD "ON BOARD" WITH THE CGA PROGRAM

1. Educating your Board of Directors

One of the most important first steps of any CGA program is ensuring that your organization's Board of Directors understands how a CGA works and why such a program brings added value to the organization. For those looking to start a CGA program, obtaining the Board's approval is critical. Without buy in from the board, your department may be denied resources to help get the program up and running. Further, your Board may include professionals in the insurance or financial fields that are familiar with how annuities work and could provide valuable advice as you start the program.

If you already have a well established CGA program, ensuring that your Board members understand how a CGA works and are updated from time to time on the CGA program will be beneficial in the long run. For example, in order to ensure that an organization has sufficient funds to pay the annuitants, many states require that an organization has a separate "reserve" fund. Some of these states require that the Board regularly approve all securities transactions in this fund. If Board members are already knowledgeable about the CGA program, obtaining this approval can be routine and require little time. In the alternative, a Board with little or no knowledge about the CGA program may be hesitant to give such approval without more information.

Another reason to educate your Board about CGAs is that the existence of the CGA program may be questioned during the recent economic downturn. This is in part due to the strict reserve requirements many states have adopted. When times are tough, it may be difficult for a Board to understand why more money needs to be added to the reserve fund instead of being used elsewhere in the organization. If you and your colleagues were already regularly updating the Board about the program and its successes before the economic downturn, it will be much easier to justify its existence if and when it is called into question.

2. Don't forget that board members can be good prospects

You should not forget that your Board members, who likely include some of the most committed and generous donors to your organization, can be considered good prospects. Speaking to the Board about your CGA program may lead to new CGAs for your organization. Even if a Board member is not interested in creating a CGA, he/she may learn enough from the presentation to feel comfortable speaking to others about the benefits of this type of gift.

3. Tips on how to best present to the Board about your CGA Program

- **Include one or two simple examples to show how a CGA works.** Use a CGA amount such as $10,000 or $100,000 that can be easily divided and multiplied and show the annual payments, charitable deduction, and amount of tax-free and ordinary income.
- **Highlight the successes of your program**. Describe how many CGA donors decided to do another gift with the organization in a given year. If your CGA program is growing explain that to the Board as well.
- **Show that your CGA program has led to other gifts in the organization.** Pick a given year (about 5 or more years back makes the most sense) and find out how many CGA donors there were in that year. Track those donors over the years to show the gifts they have given from that year until the present (ex. new CGAs, bequests if any donors passed away, gifts to the annual campaign). These additional gifts can certainly be attributed to (at least in part) their satisfaction with the CGA program and any associated cultivation or personal attention they may have received. (A sample power point page containing this information can be found in <u>Appendix 1</u>).

  If your database does not maintain data in such a way that this information can easily be pulled, you should work with your IT department to determine how you can gather this information.

4. Consider forming a Planned Giving Committee

Since Board members in most organizations have a multitude of responsibilities, it may be difficult for them to devote much focus to planned giving issues. As a result, you should consider forming a planned giving committee made up of key board members who could act as strong supporters for the planned giving department and/or have professional expertise that will be beneficial to your department. This committee could help resolve any issues that arise related to the CGA Program and other planned gifts. Also, this committee could support and help present any recommendations related to the planned giving department that may need Board approval. When times are tough in your organization, the committee could support your department when the financial vitality of the CGA program or any other aspects of your department are being questioned.

B. GIFT ADMINISTRATION

CGA gift administration includes the day to day processes that are essential to the running of a CGA program. The administration includes the processing of payments, mailing of annuity payments and tax information, termination of CGAs, and other similar tasks. Inefficient gift administration can lead to frustrated and unhappy donors, which should be avoided at all costs. The care of donors is paramount in running a successful CGA program as is an organization's reputation. The business of offering charitable gift annuities has become more competitive over the years. As a result, an organization's good reputation has an important role in attracting new gifts and ensuring that existing donors continue to create additional CGAs with your organization rather than with another one.

1. Establish clear procedures for the creation and termination of CGAs

The creation of a CGA on an organization's end may involve various pieces of documentation and several staff members. In order to ensure that everything is handled properly and efficiently all staff members should be aware of what their role is in this process. Whether you have a large or small department, it is important to set forth clear step-by-step guidelines of how a CGA should be processed. This will facilitate the accurate completion of all paperwork and the timely deposit of payments

The planned giving officer should be the person in touch with the donor during the process. Since it is likely the planned giving officer who has the relationship with the donor it makes sense for this person to be the one communicating with the donor and providing updates as to when the paperwork will be completed. Ideally, there should be one staff person in your department responsible for handling all the paperwork involved with creating a CGA. This should also be the person in the department responsible for forwarding the check and other paperwork to the financial service provider for the organization's CGA program (Refer to Section C). Since the financial service provider often sends out the annuity payments, it is critical that the correct information about a new gift is provided to them in a timely manner. These procedures should also explain the different processes involved for gifts of cash and gifts of stock.

One step to consider during the process of creating a CGA is the peer review. The creation of a CGA involves, among other things, running a final CGA calculation based on the gift receipt date, drafting of a CGA agreement, and preparation of a tax substantiation letter that the donor will be able to use for tax purposes. With all of these documents to draft, there is room for error. If the calculation is computed incorrectly the rest of the paperwork will need to be corrected. Having someone else in your department review everything before it is sent out will help reduce the likelihood of error. Also, a checklist may be helpful to ensure that you have all the necessary documentation for each new gift. [See Appendix 2 for a sample checklist].

See Appendix 3 for a set of sample CGA procedures.

While a donor is only required to sign the CGA agreement in a few states, it is recommended that the agreement always be signed by the donor as well as an officer of the charity. Ideally, you should review the contract with the donor (and his/her financial/legal/tax advisor) in person or by telephone. This will be reassuring to the donor and it will protect your organization if there are ever subsequent questions concerning whether the irrevocable nature of the agreement or any other terms were clearly explained.

The donor(s) should always receive a copy of the fully-executed gift CGA agreement.

A separate set of procedures should also be established for the termination of a CGA. These procedures should require a proof of death document (i.e. death certificate) and steps that should be taken when there is a surviving beneficiary CGA and when there is not. Also, consider running your pool of annuitants and their social security numbers against the social security death index on an annual basis. Alternatively, you can retain a company who can do this for you at a reasonable price. This will ensure that you are not paying annuitants that are no longer living.

See Appendix 4 for a set of sample CGA termination procedures.

2. Ensure that payments and tax information are timely and accurate

If possible, you should choose a financial service provider that can mail out the payments. By doing so, you will free up time for your staff members that had previously handled this time consuming task. Also, there will likely be fewer mistakes in the payment process if your financial provider takes it over.

The mailing out of annuity payments is a major component of any CGA program as there are many donors who choose to receive checks in the mail rather than direct deposit payments. (Direct deposit is a much more cost effective and efficient way to send out payments so it would be beneficial to encourage your donors to choose this option.) If your organization receives calls on a regular basis from donors complaining about late or missed payments, then you should consider reevaluating the process used to send out payments. One step you can take that will help streamline the payment process is to schedule all new CGAs to receive payments at the end of every calendar quarter (or other schedule that works for your organization). This will create consistency and eliminate the need to be sending out payments every day. Obviously this policy is easier to implement if you are just starting a CGA program. However, if you already have a well established CGA program it is possible to implement the policy as it relates to new donors. Donors that already have CGAs with your organization will maintain their respective payment schedules, but by implementing the policy you will be moving in the direction of having a consistent payment schedule for all donors.

Make sure that tax information related to CGAs, such as IRS 1099 statements, are sent to donors by the end of January each year. (This is mandated by the IRS). Donors frequently want this information earlier, so sending it sooner than the end of January will be appreciated. Donors rely on this information to file their tax returns, so it can be frustrating for them if they are starting to prepare their returns but are waiting on information. Mailing 1099 statements can also be handled by your financial service provider.

3. Turn administrative tasks into cultivation opportunities whenever possible

As mentioned above, an efficient and well-organized administrative side of a CGA program is crucial to the program's success. It is possible that the staff handling these administrative tasks may speak with donors if there are issues concerning their annuity payments or other related matters. Be sure that all staff is trained to be courteous and responsive. A donor should always feel that attention is paid to any question they have, and it is answered as quickly as possible.

Due to the nature of any CGA Program, there are many opportunities to be in touch with donors throughout the year. You should view these as opportunities to further engage your donors and update them about the work of your organization. For example, each time quarterly checks are sent to donors you should consider including a letter describing some recent projects or programs. Even if a service provider handles the payment process, it is likely that they will be able to include an extra letter or note in the envelope if you provide it to them. Another idea is to send anniversary notes to donors after a year or another period of time has passed since the donor first created the CGA. These small touches can go a long way in making donors feel like they are receiving attention and appreciation. Some of your best prospects are those donors who have already created a CGA with your organization.

4. Accounting

It is important that your department maintains a good relationship with your organization's finance department as you will need to work closely together to ensure gifts are properly recorded on your books. GAAP (Generally Accepted Accounting Principles) should be adhered to. Your organization should recognize the CGA agreement in the period in which the contract is executed. The assets received should be recognized at fair value when received, and an annuity payment liability should be recognized at the present value of future cash flows expected to be paid out. The difference between the liability and the assets is considered contribution revenue.

Your organization (or your service provider) should establish a way to track the ongoing value of each gift within its gift annuity fund. If your organization's practice is to withdraw the residuum amount upon the termination of a CGA, you will need to know the correct amount to withdraw. Also, the date of death value is important as you may need to provide it to an executor working to close an estate of one of your donors or annuitants. Finally, a review of the performance of each CGA will help determine the impact of each individual CGA on the overall financial vitality of the reserve fund.

C. CHOOSING AND WORKING WITH A SERVICE PROVIDER

A CGA program will be successful only if the development department and the financial institution servicing its CGA program have a good working relationship in which they each understand its roles and responsibilities, and in which both communicate openly and honestly with one another. A good working relationship will provide for much smoother operations and, as a result, happier donors. Further, it will allow an organization to outsource some of the burdensome tasks related to gift processing. When choosing a new service provider it makes sense to interview several different providers so that you will be able to compare their services and management style and then pick the one that fits best with your organization's needs. If you have started to question the quality of services you have been receiving from your provider, you should consider meeting with other providers in order to know whether you could be getting better service elsewhere. Below are some considerations that you should keep in mind when choosing a new provider or evaluating your current one:

1. Experience working with other CGA Programs

Your financial service provider should have solid experience with CGA administration and a good track record. Find out how many institutions use their CGA administration services and the dollar amount and number of gift annuities presently under their administration. You will also want to find out how their charitable department is structured and ensure they are in compliance with all regulatory agencies. Ask for names of other non-profit organizations that the service provider currently and previously worked for and call them to discuss their experiences with the service provider.

2. Key personnel and customer service

Before making a decision about any service provider, you should meet the individual who will be the primary relationship manager assigned to your organization. It is important that you like this individual's personality and work style as you will be communicating and working together often. Find out their tenure in their current position and with the organization. Discuss the customer service your organization can expect as a client of the financial provider and how the provider plans to communicate with you regularly (i.e. telephone or email). Also, find out the method of communication they prefer when your organization's staff need to contact them if there is a question or when a problem arises.

3. Portfolio management

Generally, each financial service provider will have its own philosophy on investment strategy, transparency, and risk management. You need to be comfortable with this philosophy as it will guide how the provider allocates assets and invests the monies in your reserve fund. Preferably, the asset allocation used by your provider should strike a balance between risk and return. It will be beneficial to ask for a report of a few CGA programs that they manage, which shows assets allocation and performance by quarter for the past few years. While your finance department or CFO may be primarily concerned about this factor when you are choosing a financial service provider, you should be sure that they are aware of the need to place an equally significant focus on the administrative factors. Switching financial providers is not something you will likely do on a regular basis so make sure you are very comfortable with how the provider will handle the administrative aspects of your program.

4. Accounting and reporting

Accounting and reporting by a financial service provider as it relates to your CGA program has the ability to make your responsibilities in this area much more manageable. You should make sure that that your service provider has the ability to customize reports that may be relevant to your organization. Since your organization's accounting department may be on a specific reporting schedule, make sure you know how soon after month-end an organization can produce financial statements. Monitoring account activity online can be very helpful so find out if your service provider can provide you with this access. It is important that the CGA information your provider maintains in their database is consistent with the information kept by your organization. There should be a process in place to check the consistency of the data and identify when there are inconsistencies.

5. Gift annuity administration

A service provider has the ability to take on many of the time consuming tasks associated with a CGA program. For example, they can send out annuity payments via electronic deposit and/or through the mail. The processes they have in place are likely automated and handled much more efficiently than if the staff at the organization was to take this on. Find out how exactly their process works and make sure they have flexibility in payment schedules if your annuity payments don't all get sent out on the same dates. Also, since some of your CGA donors may have CGAs with other organizations it is important that the checks or direct deposit confirmations mailed out clearly identify that it is for your organization's CGA. Having a service provider add your organization's logo on the envelope, check, and/or direct deposit confirmation will help with this. It is a good idea to include notes or letters in the payment envelopes every so often. This could be an opportunity to thank the donor again for their gift or update them on what is going on with your organization. Make sure that the provider does not have a problem including this additional correspondence in the envelopes if you were to provide it for them.

Explain to the provider the procedures performed by your organization in accepting a new CGA or terminating a CGA upon an annuitant's death. Make sure that the provider and you can agree upon a process to transmit this information to one another. Also, a service provider should responsible for preparing and distributing 1099-R forms to annuitants. Confirm the provider's ability to handle this.

See Appendix 5 for a sample service provider Request for Proposal.

D. USE OF ANNUITY FUNDS

There are a number of options when it comes to using your annuity funds. Some of these options include: (1) investing the entire contribution of a CGA until the last annuitant dies and then withdrawing the remainder from the reserve fund to use for a designated or general purpose; (2) only investing the amount of the CGA that is needed to cover the reserve requirement and immediately using the rest for the designated or general purpose; (3) invest the entire amount of the CGA and periodically transfer funds out of the reserve account when they are significantly in excess of the reserve requirement amount; (4) a variation of the last option would be to invest the entire amount of the CGA, but only withdraw a percentage of the excess in the reserve fund consistent with the organization's spending rate. The last option is probably the must prudent. It allows you to deal with market fluctuations and avoids the problem that many charities have run into recently when they need to add additional monies to meet the reserve fund requirement.

E. COMPLIANCE

Many states strictly regulate the CGA programs of organizations. The reputation of an organization is very important; therefore it is crucial that all regulations are strictly adhered to. While this paper will not address the specific regulations of any one state, below are certain smart practices for an organization to follow to ensure that its CGA program is in compliance.

1. Establish a rate table that works for your organization

Many organizations decide to use the current rate table published by the American Council on Gift Annuities (ACGA). This practice is considered by many as a means to minimize risk. The rates are designed to result in a residuum of at least 50 percent. If your organization has a small volume of CGAs or is just starting a CGA program, using the ACGA rates would certainly be a smart practice. If you have a larger, well-established CGA program, you should weigh the pros and cons of using these rates.

If an organization uses the currently suggested gift annuity rates published by the ACGA, regulating states will not require the charity to prove, through the use of an actuary, that their annuity rate chart is within that state's regulatory law. If an organization chooses to offer CGA rates that are higher than those suggested by ACGA, the regulating state may require the charity to employ an actuary to prove that the assumptions used in setting its CGA rates are within that state's regulatory laws. Retaining an actuary is a cost that an organization will need to incur if using a higher rate table.

While we all hope that an organization’s mission is the primary reason why a donor creates a CGA with a specific organization, this isn’t always the case. Today, many donors “shop around” to find the best CGA rates. Adopting a higher rate table than other organizations will give your organization a competitive advantage. This may increase your organization’s volume of CGAs. A larger volume of CGAs will likely counter the slight decrease in residuum value resulting from a higher rate table.

Your Board, hopefully knowledgeable about your CGA program, can help you make an educated decision about which rate table to use.

2. Establish gift acceptance policies

An effective gift acceptance policy for your organization will encourage the types of gifts that make best use of staff and other resources. The policy should anticipate issues with certain types of gifts and attempt to minimize problems arising from those issues. In addition, it will provide a framework for review and consideration in situations with unusual assets or circumstances.

Your organization should establish clear guidelines concerning the minimum age for establishing a CGA and a minimum gift amount. This will ensure a reasonable gift for your organization upon termination of the CGA. The younger the annuitant, the lower the present value of the residuum for the charity. A minimum age of 65 is the most common lower limit. For deferred annuities the minimum age will be lower. A good practice for deferred gift annuities is to set a minimum age for establishing the gift and then defer payments until the recipient reaches the age set forth by your organization to be eligible to receive payments. For two-life annuities you should not begin paying out the annuity until both annuitants turn 65.

Common minimum gift amounts are $5,000 or $10,000. The amount you choose will depend on the volume of gift annuities that you anticipate. If you are just starting your program you may want to consider setting a $5,000 minimum. As your program grows you can increase that minimum to $10,000. When you change the minimum be sure not to alienate your long time CGA donors that may have made multiple $5,000 CGAs in the past. Consider making an exception for those donors that have previously created more than one $5,000 CGA. Many of these donors may be not willing to increase their CGA amount beyond $5,000 and you do not want to lose their support.

Cash and appreciated securities are the most usual assets accepted for funding charitable gift annuities. Some organizations have chosen to accept real estate, tangible personal property, and other property interests under special situations. Special attention should be paid to "hard-to-sell" assets as they may create liquidity issues in the annuity reserve fund. The type of assets that you will not accept for charitable gift annuities should be set forth in your gift acceptance policy. Situations will arise in which the organization will be asked to consider an exception to their policies. Therefore, it is appropriate to have a procedure in place for making exceptions. Policies should specify who needs to be involved in any decisions concerning exceptions to your policy. This will ensure that a timely response can be given to the donor.

3. Stay updated on federal and state regulations that may affect your program

Be sure to stay abreast of any changes in federal and/or state regulations that may affect your program. It makes sense to do a periodic review of the CGA program requirements in the different states you will issue agreements to, in order to ensure you are in compliance. This generally includes the state in which you're organization domiciled as well as additional states where your donors reside. Different companies, such as PG Calc, can provide you with this information. The ACGA's website has a good summary of the regulations in each state. Your financial service provider, which likely has clients in many different states, may also be a good resource for this information.

If you wish to issue agreements in a state where you have never issued an agreement before, you should either contact the state licensing group yourself or contact an outside firm to have them guide you through the process. As the process is complicated in some states, it may make sense to engage a firm to assist you.

4. Provide a disclosure statement to all donors before they create a CGA

The Philanthropy Protection Act of 1995 requires that a disclosure statement containing information about CGAs and the issuing charity be provided to a prospective donor in advance of the establishment of a CGA. It is good practice to have a donor sign the disclosure statement (or a separate consent form) indicating that he or she has received and reviewed the document. Some states require specific content in the disclosure statement, and many states require disclosure language in CGA agreements.

5. Monitor the reserve fund on an ongoing basis

Ensure that the reserve fund is adequately monitored so that sufficient assets are being held in the fund at all times. This is especially relevant when the market changes significantly as it did over the last couple of years. Once the CGA assets are properly invested, the investment performance should be monitored on a quarterly basis. The formal rebalancing of the fund on an annual basis is usually sufficient. While it is important to be aware of the market environment as it is affecting the fund, you should not overreact to short term market volatility.

6. Maintain organized and complete CGA files in preparation for audits.

Although maintaining an organized filing system for your CGAs may seem like a very obvious tip it is important enough to point out briefly. CGA programs may be audited by the state insurance department or other organization that regulates your program in your state. Often times these auditors will provide you with a list of CGAs or other documents related to your program that they will need to review. It may reflect poorly upon your organization in the final audit report if you have a difficult time locating requested information. In today's age, storing this information electronically is becoming increasingly common and it is also a good way to maintain this information. However, keeping organized hard copies is still important as auditors may need to review the process you are using to create CGAs and one of the easiest ways for them to do this is to review the contents of an individual CGA folder You may want to consider attaching a summary sheet describing the basics of the CGA (i.e. donor name, date of gift, amount of gift etc.) on the front of the folder to allow you to find this type of information quickly. It would be a good idea to maintain your terminated CGA folders in an organized manner as well. These folders may also be reviewed by auditors when they are examining your CGA termination processes.

Often times CGA files may contain information such as donors' social security numbers or other private information. When reviewing your filing protocols, consider how you are securing this information and consider setting up some procedures so it is not easily accessible to everyone in your organization's building.

F. <u>MARKETING/PROSPECTING</u>

Marketing your CGA program is one of the most significant ways you will bring in new prospects. While marketing will need to be customized to best reflect the mission of your organization, below are some general tips that are important to follow when developing marketing or prospecting strategies:

1. Develop materials and ads that are clear, accurate, and not misleading

Often times you will choose to target your CGA materials, direct mail, and ads to an older subset of donors. If this is the case, take extra precaution to ensure that the materials you develop are easy to read and understand. For example, while you and your staff may find an orange font color to be fun and different, consider whether an 80-year-old donor will be able to make out what it says. The CGA materials and ads you use are often the first time donors and prospects have the opportunity to learn about CGAs as a way of making a gift to your organization. Your explanation of CGAs should be clear and accurate, and should emphasize the charitable nature of the CGA. Don't feel obligated to include every piece of information about your CGA program. The idea is to include enough information to peak the interest of a prospect so he or she will contact your organization for more information. Ads that bring a sense of nostalgia to donors have been found to be successful.

CGAs are first and foremost a way of making a gift to your organization. The Philanthropy Protection Act of 1995 warns charities against inaccurately comparing gift annuities with other investments since they are exempt from federal securities regulations. As a result, you should avoid comparing CGA rates with returns from other financial instruments, and also avoid using terms that make a CGA sound like a commercial investment. (This may include terms such as "product," "purchase," “yield," “rate of return,” and “effective rate of return”). Do not use the phrase “guaranteed income” because though the annuity payments are backed by the general assets of your organization, the annuity payment is not "guaranteed" in the legal sense of the term, and a return of principal is not “income.”

Make sure you are not providing legal and financial advice in your materials and always encourage donors to consult with their advisors before proceeding.

2. Include donor stories

Donor stories are great tools to engage prospects and recognize your existing donors. You can highlight several CGA donors in a brochure or newsletter or use video testimonials. These testimonials can be shown before or during events and will often spark conversations about CGAs amongst the attendees. Try to include CGA donors of different ages to show how a CGAs can appeal to a range of ages and does not just need to be for much older donors.

3. Be creative when determining where to place your ads

Every year you should reevaluate your marketing campaign. It is easy to get into a routine of placing your organization’s advertisements in the same papers; however, you should always be open to exploring different options. For example, local papers in your area may be being overlooked and these are often read by an older population. Consider advertising or setting up a booth at conferences geared towards an older population, or explore radio advertisements.

4. Integrate CGA marketing into the overall fundraising efforts of the organization

Integrating a planned giving department into an organization’s annual or major gifts campaign is often a challenge. The annual campaign tends to take the spotlight in an organization’s fundraising efforts as it provides for current dollars. Despite the challenge, you should push to have information about CGAs and other planned giving vehicles available at annual campaign events or mentioned in direct mail pieces. These events are often attended by many of your target donors. Laying out CGA brochures and rate cards may be one subtle way to get your message across at the event. If your organization's CGA program dollars goes to support the endowment you should try to get a few sentences about the importance of the endowment in speeches or scripts. For example, if a percentage of the money from your endowment went to fund a certain program, one of the speakers at the event should mention this. An endowment is especially significant when times are tough so you may have some good example from the last couple of years to share.

You should consider your annual campaign donors good prospects. Work with your annual campaign fundraisers to determine who the best prospects are and try to visit them as a team. Also, run lists of your annual campaign donors to determine who has given for many years in a row. These represent some of your most loyal donors and may also provide clues about donor age. CGAs may not always appeal to higher end donors, as wealthier individuals may not need the income, so try to appeal to both higher and lower end donors. Lower end donors are also the ones that may not have received personal attention from your organization in the past and will likely be excited to meet or speak with you to learn more about the organization. These meetings and conversations will provide good opportunities to get to know the donors and determine if they are good CGA prospects.

5. Track your marketing results

It is important to determine which of your marketing techniques is most successful. In order to evaluate its success (or lack thereof), you should establish procedures to track the response rate after an ad is placed or a direct mail piece is sent. If multiple ads are placed at the same time, consider including different phone extensions on the ads so that when a prospect calls on a certain line you will know what ad they are calling in response to. Similarly, if you send out different direct mail pieces, test which one is most effective by including different codes on the response slip. When a donor sends back a slip requesting a personalized calculation or more information, you'll know the exact ad to which he/she is most receptive to. As mentioned above, don't be afraid to try different approaches when it comes to placing and designing ads. Compare the results so you'll know which approach you should continue using and which ones you should not.

6. Don't forget about your current CGA donors

You should not forget that often times your best CGA prospects are right in front of you. Devote time and resources to cultivating existing CGA donors. Donors who have created CGAs with your organization in the past already support your organization and likely have resources to give away. Since you already have important information about them such as their age and where they live, current donors are an easier group to send a targeted mailing to. Be sure that your staff is sending these donors birthday and holiday cards. They should also be calling and meeting with these donors on a periodic basis to simply say hello and update them on recent happenings at your organization. Consider occasionally letting your existing donors or annuitants know what rate they would be eligible for if they funded another CGA. This can go along with an already planned CGA mailing. Try to design the mailing so it is more informational as opposed to being too much of a sales pitch. Current CGA donors are also good prospects for bequests, so consider sending mailings about how easy it is to establish a bequest provision supporting your organization. Remember that donors want to feel recognized and good stewardship will help them feel appreciated and happy that they made a gift to your organization.

F. DATA COLLECTION AND EVALUATION

Most likely you keep good data as it relates to the financials of your CGA program (i.e. number and amount of CGAs raised each month). However, there are other reports you can run which will help you evaluate the success and health of your CGA program. Most of these reports are relatively simple to run as long as there are mechanisms in place to collect and maintain the data on a regular basis.

1. Number of repeat versus new CGA donors

Keeping data on existing CGA donors, such as the number of repeat donors and how new donors heard about the CGA program, will be beneficial. If you are bringing in many more CGAs from repeat donors than new donors, you may want to reevaluate your marketing and prospecting approaches. Alternatively, many more CGAs for new donors may mean that existing CGA donors are not getting enough attention from your staff. When donors create CGAs you should find out how they learned about your program. Keep this data so at the end of the year you can determine which of your marketing strategies was most successful in brining in new gifts.

2. **Amount of money raised (other than CGAs) from CGA donors**

This type of report was mentioned in the first section on educating the Board about your CGA program. It requires tracking the annual gifts, additional CGAs, bequest dollars, and bequest intentions that have come in from a group of CGA donors. You should choose a year that is at least 5 or more years earlier and sum up all of these amounts from that year to the present. Tracking the added benefit that your CGA donors provide to the organization will demonstrate the value of the CGA program and will highlight the importance of the cultivation and stewardship of CGA donors.

3. **Review of terminated CGAs**

One way of evaluating the financial stability of your CGA program is to examine your terminated CGAs. The residuum value of a CGA upon an annuitant's death is dependant on a variety of factors including: the market environment during the lifetime of the CGA, whether the annuitant lived past his or her life expectancy, and the annuity rate used for the gift. Examining whether these values tend to be more or less than the charitable deduction value of each gift will provide insight into whether the reserve fund is being invested properly and if the rate table being used is appropriate. Initially, you may want to review all of your terminated CGAs to get an overview of how your program has performed over time. Thereafter, on an annual basis you can just review the terminated CGAs from the past year. This is also the type of report your service provider may be able to run for you.

G. <u>STAFF TRAINING</u>

1. Teach your entire department how a CGAs works

All staff in your department should have an understanding of how a CGA works. Obviously, development professionals will need to possess much more of an in-depth knowledge than others but all staff should know how to run and read a basic CGA illustration. At one time or another all of your staff will likely end up on the phone with a donor who has a question about a CGA. Since most likely everyone in your department will not be able to answer questions from donors about CGAs, it is very helpful if everyone can understand what the donor is asking in order to be able to correctly relay the question to someone else in the department. It's possible that all or most of your staff members will participate in the process and paperwork related to the creation of a new CGA. It is helpful if they understand how one works when taking part in this process. Your staff will appreciate these learning opportunities and it will make everyone feel more part of a team.

2. Educate your colleagues in the annual campaign/major gifts dept. about CGAs

Educating internal colleagues in your organization is essential to the effective involvement of the entire institution in the promotion of CGAs. Colleagues in the annual campaign development department in the organization should be able to bring up CGAs with prospective donors, and know when to come to the planned giving office for more information. Provide periodic trainings for your colleagues about CGAs and other planned gifts. Try not to inundate them with technicalities. Instead, provide colleagues with a general overview about how a CGA works and provide them with ways to identify planned giving prospects. Give coworkers sample language or questions they can use for starting a conversation about planned giving. CGAs are not a one-size-fits-all solution for donors, but should be offered as a choice in a comprehensive planned giving program. Development and planned giving staff need to be well versed to the clues provided by the prospective donor, and provide the appropriate solution based on the donor's needs and situation. Help major gift or annual campaign fundraisers feel comfortable about this subject matter and volunteer to go on donor meetings with them. This type of collaboration with your colleagues will lead to more CGA prospects and a more educated organization overall when it comes to issues related to planned giving.

Whether you should begin a CGA program or continue your existing program may depend on the size and resources available to your planned giving department. This is an issue that will need to be discussed with your Board and other key members of your organization. While there are many factors involved with operating a CGA program, the benefits to your organization – both direct and indirect – will often make the program worthwhile.

William D. Samers
Vice President of Planned Giving and Endowments
UJA-Federation of New York
130 East 59th Street
New York, NY 10022
(212)836-1755
Samersw@ujafedny.org

Julie Lazarus
Development Executive, Planned Giving and Endowments
UJA-Federation of New York
130 East 59th Street
New York, NY 10022
(212)836-1487
Lazarusj@ujafedny.org

APPENDIX 1

Sample PowerPoint Page for Board Presentation

EXAMPLE – FY 2002

88 donors created CGAs:

- $10 million in CGAs created to date
- So far $2.9 million in bequest gifts from 7 of 32 deceased donors
- 15 of 56 living CGA donors have made bequest provisions to [name of organization]

APPENDIX 2

Sample CGA Check List

Name on gift: ____

Planned Giving Officer: ______________________________________

- ❑ Application Completed and Signed
  - o Make sure a contact person is listed
- ❑ Informed Consent of Donor Signed
- ❑ Correspondence Forwarding Initial Gift Illustration and Disclosure Statement
- ❑ Copy of Driver's License or Federal/State Issued ID
- ❑ ACH Agreement Signed (if Applicable)
  - o Copy of Voided Check
- ❑ Summary & Taxation Sheets Completed
  - o Check GiftWrap for previous gift dates when pro-rating.
- ❑ Tracking Sheet Completed
  - o Please note if Joint Gift and who is the Remaindermen
- ❑ Envelope (if payment is in the form of a Check or Physical Stock Certificate)
- ❑ Substantiation Letter
- ❑ Payment
  - o Check
  - o Securities:
    - ▪ Company Name
    - ▪ Stock Symbol
    - ▪ Date & Cost Acquired (by Donor)
    - ▪ Number of Shares
    - ▪ Yahoo-Finance Printout containing the Fair Market Value
      - (Average High/Low for the day = (High+Low)/2)
  - o Wire Transfer:
- ❑ Donor Acknowledgement Letter Prepared

______________________________ Planned Giving Officer Signature	__________________ Date Submitted
______________________________ Manager Signature	__________________ Date Acknowledged

APPENDIX 3

<u>Sample CGA Policy and Procedures</u>

1. Prepare initial CGA Illustration for Donor

2. If the Donor is not new, check previous files for an ACH form and/or Donor's ID.
    a. Please do not assume that we have all records on file.

3. Deferred Gift Annuities can begin to pay out when an annuitant turns 65. When there are two annuitants, payments cannot be made until <u>both</u> annuitants are 65.

4. Mail a Cover Letter with instructions to the Donor including:
    a. 2 Applications
    b. 2 Informed Consent Forms
    c. ACH Form (if not on file)
    d. DTC Instructions (if stock transfer)
    e. Request for a copy of their ID (if not on file, or if new donor)
        i. ID's can be:
            - Driver's License, or State Issued ID
            - Birth certificate
            - Passport
    f. A filled out Return Address Envelope
    g. Disclosure Statement

5. Review envelope returned by Donor
    a. Verify 2 signed Applications (1 is their copy)
    b. 1 Consent Form (1 is their copy)
    c. ID, if not already on file
    d. ACH Form with a Voided Check (if Donor wants it)
    e. If a check or physical stock certificate is enclosed in the envelope, save the envelope.

6. If the gift is:
    a. Cash
        i. Receive a check from the Donor
            - Note that the Date of gift will be the date postmarked on the envelope.
    b. Stock
        i. Company Name(s)
        ii. Stock Symbol(s)
        iii. Number of Shares
        iv. Cost Basis (for each Stock)
        v. Date Acquired (for each Stock)
        vi. Calculate the Fair Market Value of the gift from a Yahoo Print-out.
            - ((High + Low) / 2) for the date the security is received. (If multiple securities, use the date the first security was received).

            - **NOTE** The exact Donor of securities must be reflected on ALL documents. For example if the husband and wife are joint annuitants, but the stock is in the wife's name ONLY, then ONLY the wife is the donor for purposes of the application, agreement, PG Calc and tracking sheets.

            - **NOTE** If you are receiving a physical stock certificate, you need to additionally request a Stock Power Certificate with both a Signature Guarantee Stamp as well as Gold Medallion stamp from the Bank/Brokerage. You also need to keep the envelope it was in as that will be the 'date of gift'.

c. Wire Transfer
    i. Cash:
        - Record Dollar amount and get copy/verification of receipt.
    ii. Stock (DTC) If you are wiring stock, please notify [financial service provider].

7. Create Summary and Taxation sheet based on all information given
    a. For all new donors, effective 1/1/08, all payment should be scheduled for the end of the quarter (i.e. March 31, June 30, September 30 and December 31).
    b. Pro-rated payments will apply in almost every case – be sure to factor this into your calculations.
    c. For existing donors, we will align payments with their existing annuities

8. *Peer to Peer Review for Summary and Taxation sheet (run numbers again in PGCalc)*

9. Create a Tracking Sheet (3 copies, do not staple to folder) and complete the CGA Checklist
    a. Information supplied by:
        i. Signed Application
            - Contacts, Remaindermen, etc.
        ii. Summary and Taxation Sheets created in PGCalc

10. Create CGA agreement

11. Create a Substantiation Letter to the Donor

12. *Peer to Peer Review for Tracking Sheet, CGA agreement, & Substantiation Letter (use GiftWrap to double-check info for pre-existing donors)*

13. Submit entire folder to [add name] for Review (he will sign off on the CGA Checklist)

14. Submit entire folder to [add name] for Review

15. Send to Donor:
    a. Substantiation Letter
    b. Updated (2006-07) Philanthropy Protection Act Letter
    c. 2 CGA Agreements for the Donor
    d. A completed Return Address Envelope
    e. 8283 Form (If the Gift is Stock)

16. Give folder to [name] for: (1) entry of information into Giftwrap and (2) mailing of documentation/check to FTC

17. Receive 1 set of the executed CGA Agreement from the Donor (1 is their copy).

18. Make sure the agreement is scanned and saved in Donor’s electronic folder.

19. Send Thank You Letter signed by ____________________

20. Compile CGA Folder for Filing. The folder should only include:
    a. Tracking Sheet (now stapled to the front)
    b. 1 Copy of the Application (Stapled to the inside of the folder)
    c. 1 Copy of the Agreement (Stapled)
    d. 1 Copy of the Consent Form
    e. Summary and Taxation Calculation Sheet
    f. Copy of the ACH Form and Voided Check (If applicable)
    g. Copy of payment information. Either:
        i. Photocopy of the Donor's Check
        ii. Yahoo Print-outs containing the Fair Market Value Calculation as well as any/all email correspondence between FTC or the Donor's Broker.
    h. The envelope that contained the original gift (if Check or Physical Stock Certificate)
        i. If Physical Stock Certificate then include a copy of the Stock Power Certificate.
    i. Photocopy of the Donor's ID
    j. Copy of Tax Substantiation letter
    k. Copy of Thank You letter

APPENDIX 4

Sample Termination of CGA Gift Procedure

Surviving Beneficiary CGA

1. When someone finds out about the death of a donor **Notify Department Immediately**:
   a. Send an email to @PGEPRO & @ PGEADMIN **[STAFF PERSON]**

2. **DO NOT** terminate CGA

3. Acquire a copy of Death Certificate **[STAFF PERSON]**

4. Notify [name of financial service provider] & Fax Death Certificate **[STAFF PERSON]**

5. Notify "Deceased" – FR100 – see instructions below **[STAFF PERSON]**

6. Update termination spreadsheet **[STAFF PERSON]**
   a. (u:PG&E\Finance\Split Interest\FY 09\CGA-TRUST Term 2009)

7. Decease the individual in GiftWrap (using procedure below) **[STAFF PERSON]**
   a. Be sure to follow all of the instructions indicated in GiftWrap
      i. (such as verifying the **"Pay Jointly" fields**, etc.)

No Surviving Beneficiary CGA

1. When someone finds out about the death of a donor **Notify Department Immediately**:
   - Send an email to @PGEPRO & @ PGEADMIN **[STAFF PERSON]**

2. Attach **Termination Checklist** to the File **[STAFF PERSON]**
   - Located: (PG&E – Finance – Procedures – Procedures & Saved Forms)
   - (Go down list methodically); put copies of everything in file;

3. Find out Executor and **get Death Certificate** **[STAFF PERSON]**
   - **Check with ___________**if she has been contacted that [name of organization] is a beneficiary of Estate – she will then know the Executor and have access to Death Certificate.

4. **Notify [name of financial service provider]** and fax Death Certificate **[STAFF PERSON]]**

5. **Check FR100;** if the donor has an account and is not marked deceased, email "Deceased" and ask to have the account deceased; **[STAFF PERSON]**

6. Check to see if **payment(s)** were made after the date of death – **[STAFF PERSON]**
   - If so, we need to request that the payments be returned.
   - There are never pro-rated payments for a terminated CGA (unlike trusts)

7. **Update GiftWrap** – decease the account **[STAFF PERSON]**
   - Click the skull and crossbones icon, then follow along with the steps as indicated

- Print the page which indicates the undistributed investment in contract and put a copy in the file.

8. **Write letter to Executor** giving undistributed investment in contract and market value at date of death **[STAFF PERSON]**
    - (Locate letter in: PG&E - CGA Forms and Procedures–SAMPLE ltr to executor re termination).
    - Market value is the market value provided by FTC on the Gift Profile (which reflects the closest quarterly value).
    - DO NOT send the letter if there are still outstanding payments due to [name of organization] from the estate

9. You do not need the estate tax ID number (this is only for trusts)

10. Remaindermen: **[STAFF PERSON]**
- If the gift was originally designated for a restricted fund, then a check for the charitable (remainder) portion should have been issued at the time the gift was originally received).
- If the gift was for for unrestricted general purposes, then the remainder portion stays in the Reserve Fund at [name of financial service provider] after termination.
- If the gift was designated for another agency, then you must **request a check** from [name financial service provider] payable to the remainderman for the charitable (remainder) portion.

11. Termination spreadsheet: **[STAFF PERSON]**
- can be found in u:PG&E\Finance\Split Interest\FY 09\CGA-TRUST Term 2009
- need to fill in the appropriate information to calculate the annuitant liability to relieve – the "Liability on Books as of Prior Qtr. End" can be taken from the reserve report received from FTC for the appropriate quarter.

12. Do **journal entries** as needed. **[STAFF PERSON]**

** If multiple CGAs, put all termination materials in CGA #1 file.

APPENDIX 5

SAMPLE REQUEST FOR PROPOSAL

CHARITABLE GIFT ANNUITY ADMINISTRATIVE AND INVESTMENT MANAGEMENT SERVICES

Please respond to the following questions

ORGANIZATION

1. Provide a brief profile of your organization including year of inception, assets under management, and the breadth of services.

    a) Specifically outline charitable trust services provided; i.e., charitable gift annuities, charitable remainder trusts, charitable lead trusts, and pooled income funds.

2. What is the organization's experience with charitable gift annuity administration?

    a) How many institutions use your charitable gift annuity administration services?
    b) What is the dollar amount and number of gift annuities presently under administration?

3. Describe the organizational structure of the "charitable trust" unit and respective responsibilities; i.e., custody services, portfolio management, gift administration, systems support, insurance department reporting, and tax reporting.

7. How often is the charitable trust unit reviewed by an independent party? What reports resulting from these reviews are shared with clients?

8. Are you currently out of compliance with any regulatory agency?

KEY PERSONNEL

8. Briefly describe the position, title, professional certifications, relevant experience and location of the key personnel who would be responsible for gift administration, portfolio management, accounting and recordkeeping, annuitant payment processing, and tax reporting for this proposed relationship.

    a) Indicate the individual who will be the primary relationship manager.
    b) For all key personnel, indicate their tenure in their current positions and with the organization. For any individual whose tenure is less than three years in his or her current position, indicate the tenure of that individual's predecessor.

9. How do key personnel maintain a high level of knowledge about charitable gift annuities and the impact of changing regulatory requirements?

CUSTODY SERVICES

10. Are custody services provided internally or by a third party? If provided by a third party identify the organization and describe its qualifications.

11. Describe how charitable gift annuity reserve funds are legally and physically segregated from other assets you may invest or manage on behalf of [name of your organization].

PORTFOLIO MANAGEMENT

12. What is your recommended asset allocation?

13. Describe the universe of available investment options?

14. What is your investment management approach or strategy?

    a) Active management by internal investment managers
    b) Open architecture platform of third party investment managers
    c) Passive indexing
    d) Mutual funds

15. What is your philosophy on trading, transparency, and risk management?

16. Select four charitable gift annuity programs that you manage and provide a report showing asset allocation and performance by quarter for the 2006 through 2008 calendar years, including comparisons to benchmarks for quarter, YTD, one year, three years, and five years.

17. What are the appropriate performance benchmarks?

18. Will you allow our organization to invest the excess over the reserve in our own account(s)?

    a) If so, will you calculate returns and provide unitization for those amounts?

ACCOUNTING AND REPORTING

17. Please provide a sample of your organization's consolidated investment reports and discuss ability to customize reports. What is the availability of investment managers to make in-person meetings?

18. Please provide a sample of your organization's annuitant sub-accounting reports and discuss ability to customize reports.

19. How would confirmations be transmitted to [name of organization] to acknowledge receipt of assets and provide the mean value of liquidated marketable securities?

20. How soon after month-end can your organization produce financial statements?

21. What on-line access is available to monitor account activity? What training and support is available to assist users?

ACCOUNTING AND REPORTING continued

22. Are tax reporting services provided internally or by a third party? If provided by a third party, identify the organization and describe its qualifications.

GIFT ANNUITY ADMINISTRATION

23. Outline transactional procedures performed by your organization in accepting a new charitable gift annuity.

24. Describe the methods used to evaluate the risk of accepting unusually large gifts.

25. Describe assistance available for annual state insurance filings; i.e., annual reserve calculations.

26. Confirm ability to prepare and distribute 1099-R forms to annuitants.

27. Confirm ability to prepare annual FASB reports.

ANNUITY DISTRIBUTIONS/PAYMENTS

28. Describe options for payment of annuity disbursements; i.e. “early” check, electronic deposit (ACH), checks payable to annuitants but mailed to [name of organization].

29. Can checks be processed more than once a month?

30. Can check stock be customized with [name of organization] logos?

31. What kind of notice do you provide for ACH payments? Can notices be customized with [name of organization] logos?

32. Describe the flexibility of payment schedules; i.e., monthly, quarterly, semi-annual, annual, and irregular.

TERMINATION OF INTEREST

31. How is the value of a sub-account determined upon the death of annuitant(s)?

32. What is the process for stopping payment on checks or reverting ACH deposits that may have been remitted after an annuitant’s death? How would [name of organization] be notified if annuitants stop cashing checks?

33. How is the donor or donor’s estate notified of any additional charitable deduction for unrecovered basis upon the termination of interest?

CUSTOMER SERVICE

34. Describe the customer service [name of organization] can expect as a client of your organization.

35. [Name of organization] may be interested in contacting some of your current clients to discuss the services you provide and their experiences to date. Please provide three references of clients for whom you are performing services similar to those requested in this RFP. References should include the charitable organization's name, and name, title and telephone number of the contact person.

    a. Please also provide the names of two of your most recent clients whose accounts you no longer manage.

FEE SCHEDULE

36. Please provide a schedule of fees. When are fees calculated and billed?

ADDITIONAL INFORMATION

37. Describe any additional areas of service or added-value that should be considered in review of this proposal.